

SMALL BUSINESS AND THE
FUTURE OF AMERICAN
CAPITALISM

by

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TABLE OF CONTENTS

- I. THE NATURE AND REQUIREMENTS OF A WORKABLE CAPITALISM
- II. SMALL BUSINESS AS THE NEW ECONOMIC FRONTIER
- III. NOW OR NEVER FOR SMALL BUSINESS

1766

I. THE NATURE AND REQUIREMENTS OF A WORKABLE CAPITALISM

Capitalism has been a term of derision used by the enemies of free enterprise to characterize an economic system under which, they said, the tendency is for money to beget money, for the rich to get richer and the poor to get poorer.

But now it has come boldly out of hiding into public use and popular print, and capitalism is hailed as the system we must uphold if we are to avoid a planned economy and the road to serfdom. Such able defenders of "the American system" as Eric Johnston, President of the United States Chamber of Commerce; Frederick C. Crawford, Chairman of the Board of the National Association of Manufacturers; Henry Wallace, Secretary of Commerce, and many others, are now using the term fearlessly and eloquently.

On the basis of this premise, they freely predicted that the concentration of wealth in the hands of a few would eventually destroy any capitalistic nation. The friends of capitalism hesitated to use the term because of its unfavorable connotation.

And this is a fortunate thing, because the American people need now to understand that liberal democracy cannot live under any other economic system except a liberal capitalism, and that, as a nation, we must either make capitalism work or we must give up democracy.

Although this nation is adult, it has never been told about the economic facts of life. We have behaved as though our economic system were indestructible. We have talked boldly of transplanting it to all parts of the world as the savior of benighted peoples. But history provides no

justification for such smugness. Thoughtful writers are pointing out today the striking similarity between conditions in the United States and conditions in foreign countries where democracy has given way to fascism, communism, totalitarianism, and tyranny.

The function of any economic system is to provide an acceptable standard of living, with conveniences, comforts, and opportunity. When people with votes get discouraged and hungry, they do something about it, if nothing more than to follow some Pied Piper off into tyranny or ruin. When capitalism fails to keep the people employed in private industry, free enterprise and free government disappear.

Webster defines capitalism as: "An economic system in which the production and distribution of wealth, the employment and reward of human labor, and the extension, organization and operation of the system itself is entrusted to and effected by private enterprise and control under competitive conditions".

The motive power of capitalism is profit. Its power lies in the impulse which stimulates every citizen to produce something of value for use by himself and his neighbors at a profit. It is the system which develops, to the greatest possible degree, personal initiative, energy and resourcefulness. In theory, at least, the business man, operating in an atmosphere of freedom, attacks his problems, builds his business, and renders service with the same type of initiative and enterprise that made American doughboys and GIs do the impossible on the battlefield.

The only limiting factors of a freely functioning capitalism are assumed to be the natural resources and technological skill available. The

theory is that the opportunity for individual reward marshals the combined efforts of every business man in the nation behind the attempt to develop and expand his business, so that he can produce in abundance those things which go to make the good way of life. The swiftly flowing stream of commerce and the rapid turnover of money are supposed to assure low prices and high employment and to create the purchasing power necessary to buy in great volume the goods and services which provide a high standard of living.

Under the totalitarian system, all the activities of trade and commerce are defined and planned by the government and supervised by bureaucrats. The citizen may do only what he is told to do. While such a system may distribute national wealth among the people of a nation more evenly than capitalism, the effect may deaden personal initiative and resourcefulness, and thus reduce the total of goods and services available for distribution.

A lack of incentive exists under capitalism when the system fails to function freely and efficiently. When production is restricted artificially and the profits of business are confined to ever fewer businesses, unemployment spreads and destroys purchasing power and under-consumption results, thus undermining the market for the goods produced. The whole economy stagnates, and poverty and wretchedness result.

Under capitalism, America has proved its capacity to produce all of everything the American people need. The remarkable demonstration of our productive capacity during World War II proves that future production in the United States is limited only by the imagination of its people. But the problem that we have not solved is how to distribute our products and wealth and how to provide employment for all of the people, so they can buy the conveniences of life.

Depressions seem to be inherent in capitalism, but, when the system functions effectively, depressions are of short duration and dynamic economic forces soon overcome them. Long continued unemployment on a national scale is a sure sign of a breakdown in the economic system.

When capitalism weakens and depressions and unemployment come on, various remedial measures are resorted to. The most common one is public works. This method is of ancient origin. Most of the Greek temples were built as public works. The Romans built their roads, bridges, aqueducts, and similar projects for the same purpose. We had the WPA and Public Works Administration projects. A favorite modern prescription resembling a blood transfusion is to inject government aid directly into the veins of business, enabling private enterprise to continue to provide employment when it would otherwise be obliged to discharge its workers.

We tried all these methods during the depression of the thirties but, after ten years of expensive treatment, the patient failed to recover. The war came along and saved us temporarily. Now that the war has ended, the accumulated savings and heavy demand for consumer goods will maintain prosperity temporarily. But, when supply and demand level off and our capitalistic system must provide permanent employment for fifty or sixty million people, free enterprise will then veritably be on trial for its life.

The question is whether we shall again take up the problem where we left it to go to war, relying merely on programs of public employment, as before, to keep our people employed, or whether we shall realistically attack the problem at its roots, correct the mistakes of the past and reconstruct the vitals of our economy so that capitalism can function fully and provide full employment for our people.

If we adopt a complacent attitude, do nothing to rectify our economic system, which before the war failed to provide employment for about ten million of our people, and attempt to make up the deficiency by government-made work, we shall face an ever-increasing and uncontrolled unemployment problem. The tendency will be for government employment gradually to absorb the populace until we are all "on the government", employers and employees alike.

Public works serve a useful purpose when they provide needed public improvements and tide over short periods of emergency, but a permanent public works program of constantly increasing size leads only to the destruction of private enterprise. If we can revitalize capitalism in the United States, make it function freely and provide normal employment for our people, extensive government employment on public works will be necessary only in temporary depressions.

But what can we do? Is there a means at our disposal by which the disease in our present system can be permanently cured? Is there a way by which the people's capitalism of Eric Johnston and the employment of sixty million people in private enterprise, as advocated by Henry Wallace, can be brought about?

This writer thinks there is, but it will require, on the part of the American people and their elected representatives in Congress, a realism and courage which they have never previously displayed.

II. SMALL BUSINESS AS THE NEW ECONOMIC FRONTIER

Let us see what has happened to our economy and what we might do about it. Remembering the prediction that capitalism would eventually destroy itself

1471

through concentration, and that our problem in America is no longer production but distribution, let us take a brief look at what has happened to capitalism in the United States. In doing so, let us remember that the only means we have of preserving opportunity for the average man is through small business. He cannot go into big business; he has to go into small business. As industry concentrates into fewer and fewer hands and smaller enterprises are gobbled up in great corporations and nationwide chains, independent enterprisers become employees instead of entrepreneurs. They become cogs in wheels instead of individuals, and the character of our economy changes.

There was a time in our history when this was a nation of small independent businesses. The expanding frontier served as a cushion against unemployment in times of panic or depression. The unemployed simply went out and got free homesteads and became small business men, producing farm products for profit and purchasing with the returns clothing, furniture, lumber, hardware and implements, which, in turn, helped industry to expand. New enterprises sprang up. New employment resulted. The beneficent forces of capitalism took hold again, depressions ended and prosperity returned.

But the geographical frontiers are gone now, and the frontiers of business and industry are restricted and limited by the powerful economic controls which the critics of capitalism predicted would destroy us. We have failed to understand that the only means of maintaining wide distribution of opportunity is through independent business. Not only have we seen the natural forces of capitalism bring about a concentration of economic power and

147
opportunity in the hands of a few great corporations, but we have seen our government, by every means at its disposal, all too often encourage this trend.

Whenever panic has gripped us, our government has rushed headlong to the defense of business--but usually to the defense of big business. The Hoover administration set up the Reconstruction Finance Corporation to bail out business. The big insurance companies--the big banks--the railroads--the big businesses generally--were the ones aided. From the start, RFC was a big business institution. The much publicized 90 million dollar loan to Daves was typical. Under the administration of Secretary Jesse Jones, RFC's characteristics never changed.

For many years we have, with complacency, watched economic opportunity for the small man shrivel up, while opportunity for big business has been enhanced by government aid. The concentration of industry gained great impetus during the first World War. After the first World War, mergers and combinations were the order of the day. When the crash of 1929 arrived, United States Treasury compilations showed that 83% of all dividends paid to individuals by corporations were received by 3.2% of the population; that 78% of all dividends were going to .357% of the population; and that 5% of all corporations owned 85% of all corporate wealth; that 201 corporations got 50% of all corporate net income, and one family set up 197 trusts as separate taxing units.^{1/}

Strange it is that the captains of industry failed to realize that by this process they were planting the seeds of destruction. When the stock

^{1/} Fortune Magazine, March, 1938, page 134, article on Robert Jackson.

market bubble burst and the great depression came on, we tried to stem the tide with WPA and various public works programs and more injections of government money into the veins of big business. After a most exhausting struggle, we found ourselves, by 1937, in a temporary period of returning prosperity. We found prices rising, business again beginning to be active. But, as we cut down our spending program, business failed to cooperate in the comeback. When the great corporations should have lowered prices, expanded production, and thus made reemployment possible, they raised their prices instead and curtailed employment.^{1/}

How well we remember the terror which gripped Detroit when 150,000 men were discharged in a single day. With decreasing government programs, with decreasing employment, the purchasing power of the public shrank, while inventories piled up and returning prosperity stopped dead in its tracks. Then the "recession" came on, and we were in a tailspin from which our capitalistic economy might never have recovered except for the War.

During all those years, small business took a terrific beating, and we completely overlooked the very means by which opportunity might have been extended to thousands to engage in enterprises which would have been fully competitive. Instead of lending government money to maintain and expand small business, billions were loaned out to bail out the big corporations, while small business was left to shift for itself and die of starvation.

When the second World War came on and we began the war production program, did we take advantage of the opportunity to expand the small concerns and balance the economy? We did not. The procurement agencies began dealing in

^{1/} Fortune Magazine, February, 1938, article entitled, "The New Deal Second Time Round".

1774

more billions of dollars through contracts with the big corporations. Some 1,150 dollar-a-year executives from the ranks of big business helped to smooth the way in the War Production Board.^{1/} Shortage of materials brought on the priority system. The big concerns got the materials. The big concerns got the war contracts. Big business got the loans, and the small concerns got the run-around.

An analysis of the figures presented by Federal Loan Administrator, Jesse Jones, to the Senate Committee on Small Business on March 18, 1942, showed that, although eleven billions had been loaned by the government for war production, big business got almost all of it. Only approximately 1/4 of 1% had been loaned to small business in amounts of \$100,000 or less.^{2/}

It seems unbelievable that we could have been so blind to our national welfare, but the fact remains that we missed the greatest opportunity in history to distribute the vast benefits of a war program to small industry, to open up new avenues for business and thus to stabilize and strengthen our economic structure. Now, with a prospective national debt of more than 300 billions on our backs, we are looking toward peace and a means of making private enterprise provide jobs for fifty or sixty million people, including the veterans returning from the wars.

It ought to be clear to all of us that the only hope of accomplishing this objective lies in opening new frontiers to business and industry, thus making it possible for thousands of small enterprises to be established and to thrive and grow strong in a fruitful soil fertilized by every aid which our government can provide. Only by this means can business be decentralized and employment and purchasing power be distributed to all the people of the nation.

^{1/} Business Week, July 4, 1942, page 45, article entitled, "Don Nelson's Men".

^{2/} Hearings before the Senate Banking and Currency Committee on Senate Bill 2250, Part 2, March 18, 1942, pages 291-293.

1775

The Senate Committee on Small Business, which has been fighting hard to preserve small business during the War, very truly said: "Small business has been facing fearful odds in its struggle to survive in time of peace. Unless effective measures are taken immediately to protect small business, it is in danger of receiving such a blow from the war that when peace has come the battered and decimated ranks of small business will be too weak to carry on, and big business, with its branch and chain establishments, backed by its great financial and political power, will move in to occupy the entire field."^{1/}

Senator Murray, Chairman of the Committee, called upon his associates in Congress to take a realistic view of the situation. "Unless the members of Congress feel that the time has come," he says, "when what is left of small business should be fenced in on a preserve like the buffalo, as a relic of the past, they must do something to restore it to its rightful place in the economy."

Everyone recognizes that small business must have ready access to low-priced capital, that it must have protection from patent monopolies and access to technological assistance, and that tax revision would be helpful. Everybody is for little business fully as much as the War Production Board executive who said, "We favor helping small business so long as it does not interfere with big business." But here is where the battle is joined and here is where the forces divide. Here is where the men who think like Jesse Jones take one road and the men who think like Henry Wallace take the other.

^{1/} Report No. 479, Part 2, Senate Small Business Committee, February 5, 1942, page 3.

1876

The time has come when we must stop asserting that big and little business complement each other in our present economy because the high degree of concentration represented by big business today is the demonstrated product of the forces which destroy capitalism. The prospect for free enterprise to continue to provide employment for all our people under the present inequality of business opportunity is no better than was the chance of the nation in the 1850's to survive "half slave and half free".

There is still plenty of "kick" left in struggling small business if we would give it a chance, but we cannot do it by halfway measures. If capitalism is to be preserved in the United States, we must adopt a new and revolutionary program.

When we examine the structure of American business, we find a few giants with a strangle-hold on the lion's share of the business in nearly every industry. We find many small companies competing against each other for a share of what is left; whereas, under a properly functioning capitalism, there should be great numbers of concerns actively producing and competing for 100 percent of the business.

There has been much confusion about what small business actually is. When we look at its place in the economy, we find that small business is not merely the corner grocery store and the little manufacturing plant employing six people, or ten or twenty people. When we try to define small business, we find, as the Senate Small Business Committee found, that: "Small business, or independent business, is a relative term. It can not be gauged by the number of employees. Independent business begins, in almost every line of business activity, at the point where the big three or four leave off."^{1/}

^{1/} Report No. 479, Part 2, Senate Small Business Committee, February 5, 1942, page 13.

177

Small business is, in reality, all business that is not big business.

For a long time, Congress has been trying, by passing laws, to prevent the swallowing up of small business by the big combination or cartel at the top. If, however, capitalism is to work in the United States, it is no longer sufficient merely to hold further concentration in check. There must be brought forth a method of dividing, through free competition, the total business of the country among a maximum number of concerns in every industry. This is directly opposed to the efforts of the monopolists, who wish to confine total business to the minimum number of concerns, so they can control production and keep prices high.

When efforts are made to lend money to small business, we find that, regardless of our sympathies, it is useless to lend money to small concerns, so that the little concerns may compete more vigorously among themselves for that small percentage of business which has remained free from the stranglehold of ^{big} business. We will find, as the Smaller War Plants Corporation has found, that the essence of a successful loan for expansion and production is to provide an opportunity for the success of the enterprise.

Banking laws, banking practices, developed through long years of experience, make the banker think first of tangible property as a basis of security. It was said of Jesse Jones that, when dealing with small business, he required "a mortgage on a man's life insurance policy and on his wife's wedding ring" before he would make a loan. Any new financial plan, designed to expand American business to the extent that the permanent employment of sixty million people requires, must have as its basis a willingness to gamble on the future success of each enterprise. When government money is loaned to

a small enterprise which fails, neither the enterprise, the public, nor the government is benefited. Only the loan to the successful enterprise is helpful. It helps the concern. It increases employment. It brings big returns to the government entirely outside the rate of interest which the loan returns, because it brings in new industry to pay taxes.

Hence, the first problem is how to open up the field of American economy so small and intermediate business can prosper.

Ready access to capital is necessary if small business is to expand, but since big business always has had ready access to capital, lending money freely to small business only evens up the financial opportunity and provides no distinct advantage for small business. Loans, government or otherwise, are not the answer to the problem of small business.

Henry Wallace has spoken of developing a climate in which small business can prosper, and this is an all-important statement. We must find out what means are available by which a sufficiently advantageous climate for small and intermediate business can be created, so these concerns may expand and prosper to the very great degree which the present emergency requires.

There are several preliminary requirements. Among them are:

1. Keeping the market open by holding the line at the top against restraint of trade and other unlawful acts. This must be accomplished by strict enforcement of the anti-trust and other laws.

2. Protecting business against the abuses and disadvantages of unfair trade practices, such as dishonest advertising, preference buying, unfair competition of various kinds, and other abuses.

1179

3. Guaranteeing small concerns access to raw materials and access to the use of patents on a reasonable royalty basis. This will require new legislation.

4. Making investment capital and bank resources available on even terms to all legitimate enterprises for the expansion, development and conduct of business.

5. Revising the rules of the Securities and Exchange Commission, so that the cost of organizing smaller concerns, expanding their capitalization, etc., will be less oppressive and overwhelming. At the present time, investment bankers can hardly afford to handle an issue under a million dollars. The percentage cost of organizing a big corporation is comparatively light, but the cost of organizing a small business is practically prohibitive.

If these measures and policies do not suffice to stimulate and extend small business enterprise, then we may have to introduce a revolutionary change in our national tax policy. It may be necessary to introduce a graduated corporation income tax, applied in the same manner as the present surtax on private incomes. The rate of taxation would increase as the total earnings increase, without regard to the amount of capital invested in the business. This new tax policy would rest upon the principle that, since the excessive concentration of control and income in business is the chief menace to capitalism, too great "bigness" in industry is an evil which must be eliminated, if capitalism and free enterprise are to continue.

III. NOW OR NEVER FOR SMALL BUSINESS

There are many other reasons why the immediate future is the propitious time to take steps to give small business a real chance in the economic picture

of our time. The war economy has upset many of the old channels of trade. With the aid of government money, new enterprises in all sections of the United States have been established--steel plants in Texas and Utah, magnesium plants in Arizona, enormous airplane manufacturing plants in California, etc. The addition of new transportation facilities--the growth of trucking enterprises, the development of freight and passenger lines through the air--will force changes in old restrictive traffic channels. The recent equalization of southern and western freight rates points to other such possibilities, and opens up vast opportunities for new industries in hitherto undeveloped regions.

Furthermore, at the present time, great organizations, like the Committee for Economic Development, are working in all of the cities in the United States to encourage expansion and employment. Men like Eric Johnston, President of the United States Chamber of Commerce; and Frederick C. Crawford, Chairman of the Board of the National Association of Manufacturers, know that we are at the crossroads. They are on record in favor of vigorous, freely competitive capitalism. Never before was there such an opportunity to liberate the American economy and really find out what free enterprise can do.

It will be said that enormous and ultra-powerful corporations must be permitted, if America is to trade effectively in foreign fields and compete with international cartels. There is no thought that American corporations would ever be reduced in size to incompetency. There would always be plenty of capable and sizable corporations to carry on legitimate foreign trade. Certain situations might require the operation of combinations of American corporations, operating under the Webb-Pomerene Act, to accomplish this task. But no private corporation, however powerful, can compete successfully with

1481

socialized international trading companies which can operate at loss to serve a national advantage.

We recognize that, under a free enterprise system, certain government-supervised monopolies, such as public utilities, are in the public interest and, therefore, justifiable. If foreign nations develop cartels with which we cannot otherwise cope, we shall have to follow their example and meet the issue by establishing government-supervised and supported corporations for the purpose.

Opponents of decentralized industry will say that nothing should be done to lessen the efficiency of any business as now constituted, and that whoever can produce and distribute cheapest should be unhindered. If, however, we are to make capitalism function fully, we shall have to give up the fetish of maximum efficiency in individual business. Whenever too great individual advantage in business destroys the opportunity for free competition in a democracy, it is anti-social because it interferes with the free play of the forces of capitalism and the effects are, in the long run, detrimental—not beneficial. Efficiency, in itself, is a fetish with totalitarian characteristics.

Fortunately, investigations have proved that, in many cases, the biggest business is not the most efficient. Even if it were, the logical result, carried to its extreme degree, would be the consolidation of all industry in the government, and this is what we are trying to avoid.

This is no brief for the incompetent small business. There will always be, in any free competitive economy, a birth rate and a death rate.

182

It is the very essence of capitalism that men may risk their capital in business and fail or succeed. But nobody discounts the capability of the average American business man. There is plenty of service and efficiency in the range of competent small and intermediate business, all the way from the little grocery store on the corner up to the independent industrialist, ranging just beneath the big monopolistic corporation at the top--and these are the concerns we are attempting to foster.

It will be said that reduction in size of corporations will retard the technological development resulting from the research programs of big concerns. Ultimate size should not be reduced to the point where a corporation would be too small to maintain a highly capable research staff. Research should be encouraged by allowing research costs to be computed as operating expenses deductible from taxes, providing discoveries are shared on a royalty basis with other concerns.

Generally speaking, however, some of the greatest inventions have not come out of the big research laboratories. They have been the children of the brains of the independent inventors. The Smaller War Plants Corporation, incidentally, through its Technical Advisory Service, has developed a plan for distributing technological information which has been gathered from many sources. This is proving of great value to the smaller companies. Legislation is now under consideration for the establishment of government-supported technological research laboratories, and such a plan would be appropriate and helpful.

Although capitalism is on trial for its life, the forces arrayed against doing the things necessary to make it function properly in the United

States are very great. They are the same forces which have successfully dominated the thinking of the country and the government in the past.

But powerful groups of voters are natural friends of any sound plan to help small business. They number more than three-fourths of the electorate. They include all business except big business, all the farmers and all laborers. Eleven million veterans coming home from the wars are free from the fetters of old ways of thinking. These gallant youths, grown wise and tough on foreign battlefields, will be hard to hold in reactionary political corrals at home, especially if they get hungry.

Our great hope lies in the fact that, once these groups understand the importance of this issue, they will march forth to meet the economic emergency in the same spirit in which they marched forth to win the war. For, unless we can win the battle at home, we will have lost the war for freedom, and American democracy will take its sad place in the cemeteries of the ages where lie buried all the earlier free governments of the world.